

## **Summary of the Proposed Arkansas Workers Compensation Loss Cost and Assigned Risk Rate Filing Effective July 1, 2025**

The National Council on Compensation Insurance (NCCI)<sup>1</sup> is pleased to provide this summary of the accompanying proposed workers compensation insurance loss cost<sup>2</sup> and assigned risk rate<sup>3</sup> filing that was filed under separate cover on March 7<sup>th</sup>, 2025, with the Arkansas Insurance Department for its review and approval.

The filing recommends a –8.8% loss cost decrease in the voluntary market and a –3.7% decrease in the assigned risk market, effective July 1, 2025.

### **Arkansas Overview**

The current filing is based on premium and loss experience as of year-end 2023 for Policy Years 2020 through 2022 and shows improved experience relative to the data underlying the July 1, 2024 filing. Lost time claims relative to premium in Arkansas continues to show a long-term pattern of decline. In addition, the state's average cost per lost time claim for both indemnity and medical exhibit a slight long-term downward trend. The final proposed loss cost level change includes the impact of changes to the medical fee schedule effective January 1, 2025, as well as an update to the loss adjustment expense component. The proposed assigned risk rate level change reflects an update to the assigned risk expenses and an increase to the assigned risk differential.

### **Countrywide Overview**

The workers compensation (WC) system remains healthy. The Calendar Year 2023 combined ratio for workers compensation was 86%, a sign of underwriting profitability, where the net written premium increased by 1%.

Frequency has continued its long-term decline and on a countrywide basis, while claim severity changes were considered moderate for 2023. The continued focus on worker safety and technological advancements are regarded as contributing to fewer workplace injuries over time. The latest medical severity change aligns with projected medical inflation, while indemnity severity tracked with changes in average weekly wages.


Payroll increased by 6% between 2022 and 2023, driven by increases in both employment and wages. Conversely, WC system costs have increased at a slower pace than wages during the same

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<sup>1</sup> NCCI is a licensed advisory organization authorized to make recommended loss cost/assigned risk rate filings on behalf of workers compensation insurance companies in Arkansas. NCCI's filings are objectively prepared, utilizing widely accepted actuarial ratemaking methodologies.

<sup>2</sup> "Loss cost" refers to the portion of workers compensation rates that are filed by the advisory organization and are allocated to pay losses but not carrier expenses. Some states include certain carrier expenses and assessments in the definition of "advisory loss costs." Carriers can use the approved loss costs as the basis for their rates, typically adjusting them for expenses with a loss cost multiplier.

<sup>3</sup> The assigned risk rate is filed for use on policies written through the Assigned Risk Plan, a program established by state insurance regulatory authorities that sets the rules and procedures for providing insurance coverage to parties that are unable to obtain coverage in the voluntary market. For the assigned risk market, NCCI files a full rate that includes the Servicing Carriers' expenses.



period. The great reshuffle of jobs has also slowed significantly as employee turnover settles near pre-pandemic levels, and we see signs of the labor market normalizing rather than deteriorating.

Economic inflation as measured with the Consumer Price Index has been elevated over the past few years. However, this economic inflation has not generally translated to higher WC medical and indemnity benefit costs:

- Medical inflation has been more stable in the aggregate with the WC Weighted Medical Price Index showing an average increase of 2.6% for the past 3 years. Medical fee schedules have helped moderate price increases in workers compensation in states that have adopted them.
- Indemnity severity has largely been tracking wage inflation in recent years—a pattern which is not unusual considering indemnity costs are essentially wage replacement benefits for injured workers.

## **Conclusion**

The workers compensation system continues to be healthy. While consumer inflation has been elevated, the inflation for workers compensation medical costs remained stable. The increases observed in indemnity severity are largely driven by increased wages, which have risen significantly in recent years. Workers Compensation premiums are based on payroll, which is an inflation-sensitive exposure base. The combination of continued frequency declines and moderate benefit costs at or below the level of wage growth, have continued to put downward pressure on overall WC system costs relative to collected premiums.